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Cotton and Products

Annual

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Report Highlights:

Domestic consumption of cotton has stabilized at 130,000 - 320,000 metric tons a year. Cotton fabric production is concentrated in a few big plants that managed to survive the collapse of the Soviet Union. Usually these plants have merged with trading companies that supply their raw cotton, often taking the form of joint ventures with foreign suppliers. Increased cotton prices in the international markets in 2004 led to decreased imports of cotton and some decrease in fabric production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Production

Official data on domestic cotton production does not exist. Attempts to renew cotton production in the southern part of the country in small quantities have nearly ceased and domestic demand is nearly completely filled by imported cotton.

Table 1. Cotton Supply and Demand, Metric Tons and Hectares

PSD Table						
Country	Russian Federation					
Commodity	Cotton				(HECTARES)(MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2003		08/2004		08/2005
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	48335	48335	42892	42892	48335	48042
Production	0	0	0	0	0	0
Imports	321147	321147	321147	315150	0	315200
MY Imp. From U.S.	0	0	0	0	0	0
TOTAL SUPPLY	369482	369482	364039	358042	48335	363242
Exports	0	0	0	0	0	0
USE Dom. Consumption	326590	326590	315704	310000	0	315000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	326590	326590	315704	310000	0	315000
Ending Stocks	42892	42892	48335	48042	0	48242
TOTAL DISTRIBUTION	369482	369482	364039	358042	0	363242

Consumption

There is no official data on domestic consumption of cotton. Expert estimates vary from 300,000 to 360,000 metric tons a year. Even without domestic production, official customs trade data does not provide an accurate estimate of consumption as, according to industry sources, up to 15 percent is imported without being declared at customs as cotton (either border trade or shipments under different HS codes). Post estimates domestic cotton consumption in MY 2004 will decrease to 310,000 metric tons. The estimates for MY 2004 are lower than last year due to higher competition from imported fabrics and increased cost of domestic production of cotton fabrics resulting from increased electricity prices, rental payments, and overhead expenses. Cotton consumption in MY 2005 is forecast to increase slightly to 315,000 metric tons due to a possible increase in domestic demand for cotton fabrics along with increasing incomes of the Russian people.

Trends in Textile Production

Cotton fabrics still constitute over eighty percent of all fabric production in Russia, but in 2004 production of cotton fabrics slowed down along with a decrease in imports of cotton. Producers continued to increase production of thinner and lighter fabrics and mixed fabrics that contain over fifty percent cotton, while production of thick cotton fabrics decreased due to the high cost of imported cotton and increasing use of new technologies that allow mixing

cotton with linen and other fibers. Production of cotton fabrics is concentrated in factories that belong to joint-venture companies with participation of cotton traders or with companies that produce high quality cotton and mixed fabrics on a tolling basis.

Table 2. Structure of Fabrics Production in the Russian Federation in CY 1995-2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	In million M2									
All fabrics	1,757	1,401	1,559	1,395	1,653	2,323	2,614	2,847	2,889	2,792
Including										
- Cotton	1,291	1,052	1,150	1,085	1,261	1,820	2,085	2,326	2,358	2,252
- Linen and hempen	131	112	103	68	90	115	124	138	157	159
- Woolen	72	50	47	40	48	54	56	50	44	36
- Silk	197	136	134	111	148	177	171	148	144	137
- Other	66	51	125	90	106	158	177	185	186	208
	As a percent of all fabrics									
All fabrics	100	100	100	100	100	100	100	100	100	100
Including										
- Cotton	73.5	75.1	73.8	77.8	76.3	78.3	79.8	81.7	81.6	80.7
- Linen and hempen	7.5	8.0	6.6	4.9	5.4	4.9	4.7	4.8	5.4	5.7
- Woolen	4.1	3.6	3.0	2.9	2.9	2.3	2.2	1.8	1.5	1.3
- Silk	11.2	9.7	8.6	8.0	9.0	7.6	6.5	5.2	5.0	4.9
- Other	3.8	3.6	8.0	6.5	6.4	6.8	6.8	6.5	6.4	7.5

Source: State Statistical Committee of the Russian Federation
Numbers may not add due to rounding.

Estimates for the period January through July 2004 are made by Post based on import tendencies and are shown in table 3. In MY 2004, production of cotton fabrics is forecast to decrease to 2,221 million square meters from a ten-year high in MY 2003 although production will remain higher than the average during these ten years.

Table 3. Cotton Fabrics Production, Marketing Years, Million Square Meters

	08/93	08/94	08/95	08/96	08/97	08/98	08/99	08/00	08/01	08/02	08/03	08/04
Aug.	187	96	123	90	90	76	113	147	186	187	202	158
Sept.	213	102	121	85	95	61	123	152	181	195	212	191
Oct.	209	90	125	100	105	47	123	166	207	213	217	199
Nov.	238	112	120	95	110	43	138	168	207	197	199	201
Dec.	238	131	109	95	110	64	155	171	201	202	212	202
Jan.	169	120	88	85	107	59	139	160	190	183	176	185*
Feb.	193	127	100	100	145	83	165	163	199	193	194	190*
Mar.	184	100	78	115	142	109	171	155	211	210	217	195*
Apr.	161	74	81	100	139	105	155	150	223	211	195	190*

May	114	75	75	85	85	77	122	152	167	166	158	160*
Jun.	110	110	85	85	98	101	140	168	169	188	183	170*
Jul.	62	87	80	70	79	75	124	155	173	169	178	180*
Total MY	2,078	1,223	1,185	1,105	1,305	899	1,668	1,907	2,314	2,312	2,341	2,221

Source: State Statistical Committee of the Russian Federation

* Post Estimate

Trade in Cotton

Cotton imports in MY 2004 are estimated at 315,150 metric tons, two percent lower than in MY 2003. Imports are forecast to remain flat in MY 2005. This quantity is forecast to be enough to meet domestic consumption at the present cost of production. Some experts from the Russian cotton industry believe the country is short of domestic cotton fabrics and the market can easily consume 500,000 – 600,000 metric tons. However, these estimates are unrealistic and market-savvy owners of cotton plants in the specialized textile regions of Russia, like Ivanovo and Vladimir oblasts, are either selling their facilities to non-textile producers (often because of bankruptcy) or replacing cotton with cheaper flax or other fibers.

Official customs data on imports is lower than most estimates because, according to industry sources, at least 10-15 percent of cotton is shipped to Russia without being declared at customs through either border trade, different tolling schemes, or imports under different HS numbers. Thus, USDA's import estimate in MY 2003 is 321,147 metric tons, but customs declared only 283,742 metric tons in the period August 2003 through July 2004.

Uzbekistan remains the main supplier of cotton to Russia, but official imports are decreasing every year. Domestic production is decreasing because of the transfer of land from cotton to vegetables and grain and due to the exhaustion of the soil, both of which is resulting in decreased total exports. Exporters have become completely integrated into the global market and Uzbek companies generally keep cotton in European and other ports ready to ship to any destination worldwide.

The Asian republics of the Former Soviet Union and Azerbaijan still provide over eighty percent of all imported cotton (estimates may vary from 80 to 90 percent depending on the share of undeclared trade with these countries) and only in the last two years have Russian traders become more active in sourcing cotton from alternative sources, like Africa, Latin America, and the United States. These shipments are price and freight rates dependent. In the beginning of CY 2005, some traders believe that if the price of U.S. cotton is not higher than \$1,100 per metric ton CIF, then it will be competitive in the Russian market.

Table 4. Trade Matrix, Cotton Imports, 1,000 Metric Tons

Import Trade Matrix			
Country	Russian Federation		
Commodity	Cotton		
Time Period	Aug/Jul	Units:	Metric Tons
Imports for:	2003		2004
U.S.	200	U.S.	350
Others		Others	
Uzbekistan	125131	Uzbekistan	120500
Kazakhstan	60387	Kazakhstan	64500
Tajikistan	33858	Tajikistan	33500
Kyrgyzstan	30000	Kyrgyzstan	30000
Azerbaijan	21199	Azerbaijan	21500
Turkmenistan	8512	Turkmenistan	8500
Country Unknown	1479	Mali	5100
Mali	1323	Nigeria	600
Turkey	1134	Turkey	400
Benin	313	Brazil	120
Total for Others	283336		284720
Others not Listed	37611		30080
Grand Total	321147		315150

Barter and Tolling

Barter and tolling remain widespread practices in the Russian cotton industry (for more details see GAIN RS4012).

Tariffs

All raw cotton (HS numbers 5201, 5202 and 5203) is imported duty free. The import tariff for cotton sewing thread and cotton yarn (HS numbers 5204, 5205, 5206 and 5207) is five percent of customs value. In 2004, import tariffs for cotton fabrics (HS numbers 5208, 5209, 5210, 5211, 5212) were permanently decreased from 20 to 15 percent of customs value (in 2003 this decrease was authorized for only nine months) and lower import tariffs on fabrics, coupled with the decreased rate of the US dollar make imports of fabrics even more competitive. As before, imports from developing countries have some customs preferences and imports of all products from Kazakhstan (a member of the Customs Union with Russia) are duty free. An 18 percent value added tax is in place on imported cotton, but this tax does not affect cotton imported on a tolling scheme.

Prices

International cotton prices were high in 2004 and affected imports. Prices are calculated by dividing the monthly value of imported cotton by the quantity and significant monthly differences in prices reflect the fact that Russian traders imported different types and grades from different sources. However, in general prices in 2004 were much higher than in 2003.

Table 5. Prices Table

Prices Table			
Country	Russian Federation		
Commodity	Cotton		
Prices in	US Dollars	Per	Metric Ton
Year	2003	2004	% Change
Jan	760	867	14%
Feb	810	790	-2%
Mar	820	886	8%
Apr	760	983	29%
May	730	913	25%
Jun	760	819	8%
Jul	800	893	12%
Aug	810	1071	32%
Sep	800	777	-3%
Oct	730	936	28%
Nov	810	855	6%
Dec	810	850	5%

Trade in Cotton Yarn and Cotton Fabrics

Imports of cotton yarn (HS numbers 5205, 5206, 5207) increased from 19.9 million US Dollars in MY 2002 to 35.8 million US Dollars in MY 2003 and already exceeded 22.3 million US Dollars in August-November 2004. By quantity, these imports increased from 17,730 metric tons in MY 2002 to 27,189 metric tons in MY 2003 and in the first four months of MY 2004, 10,232 metric tons of cotton yarn was imported. Imports of woven fabrics of cotton also increased both in value and quantity.

Table 6. Imports of Cotton and Products, Market Years, 1,000 U.S. Dollars

HS	Description	Aug 99 - Jul 00	Aug 00 - Jul 01	Aug 01 - Jul 02	Aug 02 - Jul 03	Aug 03 - Jul 04	Aug-Nov 2004
	52 COTTON, YARN, FABRIC	449,639	508,482	286,375	316,976	338,001	125,443
5201	Cotton, not carded, not combed	378,688	410,521	215,497	236,025	241,387	84,323
5202	Cotton waste and yarn waste	477	1,717	1,258	2,620	3,685	1,600
5203	Cotton carded or combed	288	266	10	180	297	297
5204	Cotton sewing thread	14,832	16,012	12,967	6,443	3,420	622
5205	Cotton yarn (other than sewing thread), 85 percent or more of weight of cotton	12,248	21,029	8,234	14,283	30,493	11,679
5206	Cotton yarn (other than sewing thread), less than 85 percent of weight of cotton	0,625	0,360	1,386	2,181	2,864	848
5207	Cotton yarn (other than sewing thread), for retail sale	1,358	2,798	3,974	3,444	2,473	9,782
5208	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200g/m2	12,708	20,786	15,123	18,493	19,063	4,947
5209	Woven fabrics of cotton, containing 85 percent or more by weight of cotton,	20,984	24,596	18,371	19,283	20,943	6,580

	weighing more than 200g/m2						
5210	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing not more than 200g/m2	3,604	5,801	4,032	3,868	3,095	1,308
5211	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing more than 200g/m2	3,109	3,999	5,038	8,738	9,881	3,357
5212	Other woven fabrics of cotton	0,716	0,599	0,484	1,417	399	100

Source: State Customs Committee of the Russian Federation

Table 7. Imports of Cotton and Products, Market Years, Metric Tons and 1,000 Square Meters

			1999/00	2000/01	2001/02	2002/03	2003/04	Aug-Nov 2004
5201	Cotton, not carded, not combed	Tons	299,898	343,666	287,584	304,977	283,742	95,518
5202	Cotton waste and yarn waste	Tons	1,429	4,699	4,749	8,966	8,175	2,143
5203	Cotton carded or combed	Tons	207	240	0	241	227	62
5204	Cotton sewing thread	Tons	20,191	24,929	9,136	2,734	1,823	182
5205	Cotton yarn (other than sewing thread), 85 percent or more of weight of cotton	Tons	11,284	17,769	6,678	12,489	22,860	8,911
5206	Cotton yarn (other than sewing thread), less than 85 percent of weight of cotton	Tons	0,907	0,193	1,479	1,657	2,162	574
5207	Cotton yarn (other than sewing thread), for retail sale	Tons	0,848	2,505	1,908	3,584	2,167	747
5208	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200g/m2	1000 SQM	26,692	60,379	35,229	53,704	60,531	11,104
5209	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing more than 200g/m2	1000 SQM	18,087	24,175	23,891	22,294	23,458	8,062
5210	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing not more than 200g/m2	1000 SQM	4,220	5,711	5,741	10,009	14,844	6,162
5211	Woven fabrics of cotton, containing less than 85 percent by weight of cotton, weighing more than 200g/m2	1000 SQM	0	0	0	0	0	0
5212	Other woven fabrics of cotton	1000 SQM		2,553	1,096	0	0	0

Source: State Customs Committee of the Russian Federation

Imports of cotton yarn increased in MY 2003 by 83 percent, mainly from Uzbekistan, Turkmenistan, Tajikistan, and Azerbaijan. These imports continue to grow rapidly in MY 2004 replacing relatively more expensive imports of raw cotton.

Imports of woven fabrics of cotton containing 85 percent or more pure cotton (HS number 5208 and 5209), increased by thirteen percent in MY 2003. Turkey, Germany, China, Uzbekistan, and Pakistan, Moldova, and Italy were among the main suppliers of these fabrics to Russia, although these fabrics came from over seventy different countries.

Stocks

There is no official data on stocks of cotton, however end of the year stocks are estimated to increase to over 48,000 metric tons in MY 2004 due to lower consumption.

Policy

There have been no recent policy changes that affect the cotton industry. Russia does not enact legislation that aids imports of cotton and there are no restrictions on commercial imports. Sometimes, the GOR will enact temporary measures or undertake research aimed at "stabilization of the light industry", at the request of cotton industry representatives. For example, in February 2005 the Ministry of Economic Development and Trade issued a report on the results of the social-economic development of Russia that concluded the cotton industry has been in crises for some time and recommended decreasing import taxes on equipment. However, representatives of the industry no longer count on support from the GOR and have formed holding companies composed of several previously independent factories. For example, the three textile combines Teikovskiy cotton combinate, Tver cotton factory, and Kamyshin cotton combinate formed the Russian Textile Alliance and have exceeded former soviet era production levels.